Submitted by email to smartmetering@ofgem.gov.uk

SSE
Penner Road
Havant
Hampshire
PO9 1QH

21 December 2017
sam.cannons@sse.com

Dear Robyn,

Re DCC Price Control Consultation: Regulatory Year 2016/17

We welcome the opportunity to respond to this consultation on the review of DCC's price control.

We broadly support the proposals set out in this consultation in respect of the DCC and Ofgem's assessment. We welcome the assurance that Ofgem is focusing on ensuring that costs are being monitored and scrutinised; given that we are only able to view part of the evidence submission by DCC, we are reliant upon this thorough assessment by Ofgem,

In terms of the costs of the DCC, we continue to remain concerned by the ongoing level of increase year upon year. Whilst we note that there may be policy initiatives and additional activities that have driven an element of these increases, there are a number of activities that should have been adequately anticipated at licence bid stage. Such growth in costs from previous year forecasts further reinforces the need that all costs by the DCC can be sufficiently justified with evidence, as being economically and efficiently incurred.

We particularly welcome the engagement approach for this year's review, and we fully support further engagement with Ofgem and DCC in next year's Price Control review.

We have provided responses to the consultation questions in Annex 1 and if you have any questions or comments, please do not hesitate to contact me.

Yours sincerely,

Samantha Cannons
Regulation – Codes

Annex 1: SSE response to DCC Price Control Consultation: Regulatory Year 2016/17

Question 1: What are your views on our proposal to consider External Costs as economic and efficient?

We broadly support the proposal that the incurred External Costs for RY 2016/17 were economic and efficient. We note the rationale set out in sections 2.7 to 2.9, and in particular, the assessment by Ofgem where DCC needs to provide sufficient evidence and information in their initial submission.

Given the increase in these costs, associated with the re-plan to a multi release strategy for go-live (releases 1.2 and 1.3), we believe that any future directions to DCC of this nature should have clearer communications and engagement with Industry on the cost implications. This should occur at the time so that we can evaluate and better comprehend the degree of variation to forecasted External Cost profiles.

Question 2: Do you have any views on DCC's contract management performance?

Given the later delivery of Releases 1.2 and 1,3, we are in full agreement that the DCC must ensure that processes are diligently followed, contract specifications are clear and that they have the right commercial levers in place to avoid additional cost and to effectively manage performance of the Fundamental Service Providers.

Question 3: What are your views on our proposals on DCC's Internal Costs?

We are supportive of Ofgem's assessment that a proportion of DCC's internal costs incurred have not been justified in 2016/17, based on the evidence and assessments set out in the consultation document.

In terms of DCC's forecast costs, we continue to remain concerned by the level of increase in DCC's costs since contract award. In particular, the variation year on year from accepted forecasts for the preceding Regulatory Year. Such levels of increase further reinforce the need to ensure that all costs incurred by DCC continue to be economic and efficient, and be fully justified with evidence.

Whilst we recognise the need for DCC to bring in specific resource expertise, we would welcome further information and evidence on the efficiencies introduced to reduce both headcount numbers and associated costs. We support the view set out in the consultation that this could start to be realised in RY 2017/18, with evidence provided at the next submission for Price Control review.

In terms of accommodation, we view that space at the London offices, if required, should focus on elements where the location is of value to its customers. We would expect there to be balance of where additional resources are located, if they are brought on for specific developments such as SMETS1. It is disappointing that whilst the DCC are seeking to locate additional premises that are more economic, the evidence provided has been deemed insufficient to qualify the costs associated with the chosen site.

Question 4: What are your views on our assessment of DCC's performance against IM9 and 10?

We agree with Ofgem's consideration that DCC delivered against the IM9 and IM10 milestones later than the due dates for these milestones. With the rationale set out in Sections 4.1 to 4.4, we agree that it is appropriate for the proposal to disallow £4.702m from Allowed Revenue under the Baseline Margin Performance Adjustment term.

Question 5: What are your views on our assessment of DCC's application to adjust their baseline margin?

SSE supports Ofgem's assessment and proposal to amend DCC's Baseline Margin to allow for a £5.134m adjustment versus the proposal from DCC of £13.955m over five years from RY 16/17 to RY 20/21. We have considered the statements and proposals set out in sections 4.7 to 4.19, and agree that where there is insufficient evidence to justify that the events relate to the application window for RY16/17, then these should be disallowed.

In terms of the margin %, we understand the proposal following Ofgem's consideration of DCC's evidence and the rationale based on the preceding year for 15%. We fully support that future costs will be captured by the agreed policy of 12% margin rate, as that applied for the initial stages of the Switching Programme.

Question 6: What are you views on our assessment of DCC's application for External Cost Contract Gainshare?

We consider the proposal to confirm DCC's application to adjust the External Contract Gain Share term by a total of £3.261m between RY17/18-RY20/21 as reasonable, given the regulatory precedent in Industry. This is based on the information set out and that this reflects a reduction in External Costs as a result of a refinancing agreement for an FSP's set-up charges.

Question 7: What are your views on DCC's reporting which explains its reasons for over-recovery of revenue in RY16/17?

As this occurred in the previous regulatory year, this suggests that there needs to be a re-assessment of the correction factor by DCC. We support Ofgem's concerns on the size of correction factor and that the size of correction factor has increased significantly this year.

We agree that there needs to be increased engagement between DCC and its customers where there are over-recovered charges, and how these will be returned, noting the recent Notice of proposed reduction in Service Charges for RY17/18. There should be little time delay between the identification of over recovery of revenue and the charges being returned.